

Golden State

Water Company

A Subsidiary of American States Water Company

September 25, 2009

VIA EMAIL to DWR_IRWM@water.ca.gov

California Department of Water Resources
PO Box 942836
Sacramento, CA 94236-0002
Attention: Ralph Svetich

RE: Comments on Draft Recommendations for the 2009 Region Acceptance Program

Dear Mr. Svetich:

Thank you for this opportunity to comment on the draft recommendations for the 2009 Region Acceptance Program (RAP). Golden State Water Company (Golden State) serves customers in nine separate geographic regions in which IRWM groups have submitted applications to the RAP.

Attached is a copy of our June 5, 2009 letter to the Department of Water Resources (DWR) commenting on the Public Review Draft of California Water Plan Update 2009. A number of our comments were directed to the IRWM program and are, for convenience and brevity, fully incorporated herein by reference.

IRWM is an outstanding water planning tool to encourage regional planning to enhance local and statewide water supply reliability. However, there is a troubling lack of integration of this regional planning process with rate-setting processes of the public water suppliers who – unlike many of the IRWM participants – are directly accountable to the public. In the case of private water companies, this accountability is subject to the oversight and regulation of the California Public Utilities Commission. In order to be successful – and ensure that precious bond dollars are being spent on real ratepayer priorities – the IRWM planning process should be formally and functionally integrated with existing governance and decision-making by the many cities, public agencies and water utilities who are directly responsible for meeting the water supply needs of their customers.

Based upon our experience, the IRWM process generally is not inclusive, does not provide a sound method of decision-making and further, is biased against participation by regulated water utilities. The IRWM groups were self-appointed and, at best, have offered water utilities an opportunity to attend meetings but have no meaningful voice at the table. We do not believe that these structures allow us to meet our statutory and fiduciary duties to our customers.

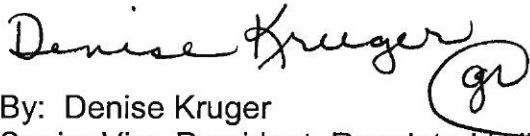
We believe that the best way to ensure integration of the IRWM process with planning at the retail level is to require the submittal of a financing plan *which includes resolutions of support from all retail water suppliers who will be required to charge their customers to pay for IRWM projects.* This requirement would ensure that IRWM groups are indeed working with all necessary parties. The past process which has required only a limited amount of participation and support from water agencies and utilities with rate-setting authority is simply not enough.

Finally, given the large number of public water suppliers who comprise the Gateway Cities, we believe that the group should be allowed a further opportunity to continue its efforts to work with all interested parties to meet IRWM objectives, without being subject to the approval of another IRWM group. We believe this requirement will only perpetuate conflict in this region and leave Golden State in the position of not only having to reconcile conflicts between its CPUC-established priorities and IRWM priorities, but between the IRWM planning group and the cities we represent.

We look forward to working with all parties and hope that DWR will develop guidelines to address these concerns. Thank you for this opportunity to comment on the RAP guidelines and for the extension of time to file these comments.

Very truly yours,

Golden State Water Company

A handwritten signature in cursive script that reads "Denise Kruger". The signature is written in dark ink and includes a large, stylized initial "K" and a circular flourish at the end.

By: Denise Kruger
Senior Vice-President, Regulated Utilities

cc: CPUC
Chris Frahm, Brownstein Hyatt Farber Schreck,



June 5, 2009

California Department of Water Resources
Statewide Integrated Water Management
Mr. Kamyar Guivetchi, Manager
Strategic Water Planning
PO Box 942836
Sacramento, CA 94236-0001
Attn: Paul Dabbs

Re: Comments on Public Review Draft California Water Plan Update 2009

Dear Mr. Guivetchi:

Golden State Water Company (the Company) is a public water supplier regulated by the California Public Utilities Commission (CPUC), meeting the water supply needs of more than one million people located throughout the State of California. The Company has a significant portfolio of adjudicated water rights, which we rely upon to meet the water supply needs of our customers. In addition, a significant portion of our service area is located in Southern California, where we supply water to 50 cities and unincorporated areas in three counties. We have 41 connections with six different MWD member agencies including Calleguas Municipal Water District, Central Basin Municipal Water District, Municipal Water District of Orange County, Three Valleys Municipal Water District, Upper San Gabriel Municipal Water District and West Basin Municipal Water District. Our combined annual imported water purchases from these agencies totals as much as 80,000 acre-feet annually and places us among MWD's top ten water purchasers.

We appreciate this opportunity to provide comments on the Department's Public Review Draft California Water Plan Update 2009 (the 2009 Update or Plan). At the outset, we would like to commend the Department of Water Resources for its ambitious efforts in producing the 2009 Update and for its outreach to other state agencies including the California Public Utilities Commission (CPUC) and other stakeholders. We would also like to express our appreciation to Lester Snow, who has ably led the Department's work, and, to Governor Schwarzenegger for his extraordinary and tenacious efforts to resolve longstanding issues which threaten California's water supply reliability and economy.

We would also like to state at the outset that we strongly agree with the fundamental premise of the 2009 Update that the past is no indicator of our uncertain future; and, that we have a unique opportunity to work together in a regional, integrated fashion to meet the challenges that confront us. We fully support long term planning to implement

management practices that will ensure a sustainable water supply future for all Californians. But in the meantime, we need to survive.

Update 2005 represented a substantial departure from prior Water Plan updates by presenting a fundamentally new direction and strategic plan for the state's long term water future including the two key components of Integrated Regional Water Management (IRWM) and improvements to the statewide delivery system. The 2009 Update builds and expands upon many of the features in Update 2005. Our comments on this 2009 Update are primarily at the "50,000 Foot View" and are offered to assist the Department as it refines the 2009 Update and makes recommendations to the Legislature and otherwise proceeds with the practical implementation of the ideas contained in the 2009 Update.

Our comments are in no necessary order of importance.

1. *Regional planning efforts must recognize the duties and responsibilities of public water suppliers who are directly accountable to water ratepayers.* IRWM generally and the 2009 Update strongly support a regional planning model to secure the state's future water supply reliability. While the Company generally agrees with this concept and the need for regional long term planning, we believe that there is also a need to build stronger bridges between regional planning activities on the one hand, and with public water suppliers and the public they serve on the other.

Many of the cities the Company serves are not engaged in the state's long term water supply planning efforts and believe that local elected officials are charged with the responsibility of determining municipal spending priorities. As a utility and public water supplier, the Company is often caught in the middle of competing if not conflicting demands and determined priorities for available ratepayer dollars. Many of the participants in IRWM and regional planning activities do not have the same duties or responsibilities as public water suppliers and are not subject to our regulatory and rate-setting requirements. As a result, some IRWM and regional planning participants are defining future resource objectives without at the same time directly considering the costs or revenue stream implications of the choices they make. A "disconnect" between planning and resource choices on the one hand and costs on the other will seriously undermine successful implementation of the state's long term plan.

2. *Stakeholders are not the same thing as the public.* The Department has clearly done an excellent job reaching out to many of the stakeholders who are interested and actively involved in water supply and management issues in California. However, these stakeholders – which some would describe as special interests – are not the same thing as "the public." Unlike public agencies which are authorized to raise rates to cover their budgeted costs after a public hearing, the state's water utilities are subject to complex audits, processes and proceedings in order to increase rates and charges to our

customers. Historically, the Division of Ratepayer Advocates (DRA) has generally opposed rate increases at levels which are far below those which are now projected by our imported water suppliers let alone those reflected in the 2009 Update. The Governor has done an outstanding job getting the message out and beginning to engage the general public about the need for investments in the state's infrastructure but much work remains to be done in this area with the public generally and with DRA. Similarly, the Plan talks about involving "communities" in regional planning efforts; however, we believe that the relevant engagement must be with our customers, the people who pay the bills.

3. *Regional planning and IRWM should address governance issues in order to ensure buy in at the local level.* There are a variety of institutional and governance issues which plague regional planning implementation at the local level. Focusing on IRWM governance generally, the Company's experience is that there is a wide range of difference in how IRWM groups were initially assembled and are now managed. In some areas, all public water suppliers have been encouraged to participate and have an equal voice in a more democratic process, while in others a small group of insiders tend to control the process. Some groups have a bias against private sector involvement and refuse to allow water utilities an equal seat at the table in spite of the fact that we will have to be accountable to our ratepayers for raising rates to pay for regional programs. Recently, AB 419 (Caballero), a bill that would authorize a water utility that is regulated by the Public Utility Commission to enter into a joint powers agreement with one or more public agencies and other water suppliers, if the purpose of the joint powers agreement pertains to regional or local water management, was held in committee due to opposition by public agencies and employee unions. We are unable to meet our obligations to our customers if we do not have an appropriate voice in the planning process and decisions that are being made. We are not able to delegate this authority or responsibility to any other party or planning process; simply being allowed to attend meetings in which decisions are being made by others does not allow us to meet our obligations to our ratepayers. There is no assurance that the real priorities are reflected in proposed project lists of some IRWM groups.

We are deeply grateful for the Administration's support in our request for equal access to Prop 50 and Prop 84 dollars for our customers (in specified areas). But there is more the Department can do to educate and influence public agencies and constituencies that adequate controls are in place to protect the public interest so that water utilities and their customers can participate on an equal footing with our public agency counterparts in regional planning efforts.

Finally, on the subject of governance, in some areas of the state overlapping regional water agencies impede integrated planning efforts by unilaterally developing "regional" plans without support from the public water suppliers who will have to pay for the programs. Regional planning agencies are able to pass through rate increases with or

without the support of retail water suppliers, even if the rate increases will be used to thwart other regional planning efforts that the vast majority of their customers support. An example of this is the litigation the Central Basin Municipal Water District recently filed to oppose Central Basin judgment amendments. Our ratepayers will end up paying for the attorneys to conduct the litigation in support of the judgment amendments, as well as for the attorneys to oppose the judgment amendments. Thus, there is a need to "integrate" the regional agencies as well as a need to integrate planning efforts. For purposes of the 2009 Update, we suggest adding a section which addresses the challenges presented by the state's current water bureaucracy in some regions

4. *Stronger integration and education regarding the state's long term water plan is needed with the CPUC and DRA.* The CPUC's Water Action Plan has established a strong foundation but more work is needed to fully integrate the water utilities into modern day water supply planning realities, procedures and costs. A review of the 2009 Update reflects the unavoidable reality that water supply costs will be increasing dramatically over the next several months and years no matter which water resource options are developed. In addition to cost issues, there are other CPUC procedures which should be refined to better reflect modern day realities, for example, the process for implementing water allocation programs affecting our customers. Working with a coalition of environmental groups, the Company proposed an innovative set of water conservation programs almost three years ago which are still not fully implemented.

5. *In order for the state's strategic plan to succeed, there must be a process for establishing practical priorities and a budget to pay for them.* The Plan includes a wide range of resource options and suggested actions to ensure water supply reliability; however, there is no suggested program or process for determining priorities. It is imperative that a budget and timeline be established which includes all demands on ratepayer dollars. As it stands now, for the reasons noted above, pass-through rate increases of regional agencies – as well as potential charges from the state as it seeks "stable" sources of funding – could consume 100% of available ratepayer dollars before local water supply and delivery costs and needs are even taken into account. If retail needs are not met, the revenue stream could be reduced and result in a downward spiral of events. As important as some regional programs are, they may not be the top priority if all water supply and delivery needs are taken into account. We recommend that the discussion of Deferred Maintenance and Aging Infrastructure (Chapter 4 at 4-19) and Water Treatment and Infrastructure Issues (Chapter 14 at 14-14) be made more prominent and moved to the front of the line. As important as climate change is (discussed at great length and in many sections of the Plan), our water ratepayers are more focused on the quality of their water service. If we are successful in providing that service, we are more likely to have the funding and financial support to address other long term needs.

6. *As a public water supplier, the Company's first priority is to provide a reliable water supply to our customers. As important as ecosystem restoration is, it is not the first priority of a public water supplier. As successful as past water bonds have been in addressing a wide variety of environmental issues, they simply have not accomplished the primary objective most of our customers believe the water bonds were for, and that is, to secure a reliable water supply. Now, in spite of these past bond measures, we are confronted with potentially severe water supply shortages with no long term solution in sight. Our comments are not intended to diminish the importance of ecosystem restoration or other environmental objectives, but rather, to establish spending priorities that allow us to meet our customers' water supply needs. If we can't do that, we anticipate a highly negative reaction to continued rates and charges to pay for less urgent demands.*

7. *Regional planning exercises must take into account local water supply delivery needs, and, factor in willingness and ability to pay. While the 2009 Update provides an outstanding catalogue or menu of resource management strategies and choices, these choices must be explicitly linked to the cost and risk commitments local agencies and public water suppliers are able and willing to make. Willingness and ability to pay will ultimately establish de facto operational and system limitations for regional plans whether or not they are expressly factored into planning at the beginning of the exercise. We strongly concur with the Plan's recommendation to address the special needs of our disadvantaged communities and believe that a statewide solution will have to be found since – unlike the energy sector – there isn't a large enough population within the regulated water community to redistribute the costs of those less able to pay.*

8. *Water rights must be recognized and protected against challenges which will result in litigation. Some language in the 2009 Update suggests changes or directions which may be inconsistent with existing water rights (e.g., in the areas of public trust and water quality). As noted earlier, the Company uses its adjudicated water rights to meet the water supply needs of our customers. Our groundwater rights are among the lowest-cost water supply alternatives available. We do not believe that approaches which challenge or attempt to take water rights would be productive; to the contrary, we believe that such approaches would only lead to litigation, cloud title and inhibit the free transferability of water.*

9. *The 2009 Update should fully recognize, integrate and reflect California water law – or, make specific proposals what needs to be changed. It would be helpful if Volume 4 covering Recent Legislation and Litigation was released before the Final Report and/or if the Update would more thoroughly incorporate discussion of legal and institutional constraints in the planning process. Most of the public and many elected officials are not familiar with the legal and institutional context within which the Plan must be implemented. We believe that the language included in the Chapter 2 Recommendations is legally fuzzy in a number of areas including public trust and*

potential expansion of regulatory authority. As noted elsewhere in these comments it would also be helpful to distinguish Constitutional rights from other roles and rights which may be changed by the Legislature. Chapter 7 states that the Implementation Plan recommendations "are as varied as the constraints they are intended to change" including institutional and legal constraints. The Plan should be specific about the institutional and legal changes it is recommending.

10. *The 2009 Update should more fully address the potential role the private sector and private capital can play in addressing the state's water supply challenges.* We understand that the Department cannot mandate actions or authorize spending for the recommendations made in the Plan; however, we believe it would be useful and important for the Department to acknowledge and help develop the potential role for private sector engagement. This would appear to be all the more important in the current state and local budget-constrained environment.

11. *Include Utilities in the header of Volume 1, Chapter 3-7 which describes those who have ultimate responsibility for providing safe and reliable water to their customers.* As the paragraph reads now, water utilities are an afterthought: "Investor-owned utilities may also be involved in water supply activities...." Given that one in ten Californians is served by an investor-owned utility, the header should be changed to read: Public Agencies, Districts, Local Governments and Investor-Owned Utilities.

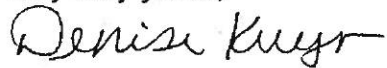
Finally, a few comments on Volume 2's Resource Management Strategies:

- The discussion of "cost" as a factor is inconsistent among different resource strategies without any explanation why cost would be a feature with some (e.g., seawater desalination) but not others.
- We agree that all resource strategies must be assessed in a "real-world" environment which we believe includes direct accountability to ratepayers.
- We believe that access to conveyance facilities is an issue that warrants further discussion in the Plan.
- We strongly support conjunctive management and groundwater storage programs and believe that there are a number of institutional issues to be addressed in order to allow for the free flow of water into and out of our groundwater basins.

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In closing, we again applaud this ambitious effort and the progress the Department has made in developing a road map to meet California's future water needs. We look forward to working with you as the Plan continues to develop and answering any questions you have about our comments.

Very truly yours,

A handwritten signature in black ink, appearing to read "Denise Kruger". The signature is fluid and cursive, with the first name "Denise" being more prominent than the last name "Kruger".

Golden State Water Company

By: Denise Kruger, Senior Vice-President, Regulated Utilities